

CLIMATE INVESTMENT FUNDS

January 29, 2014

PROPOSED CRITERIA AND PROCESS FOR SELECTING NEW PILOT COUNTRIES UNDER THE SREP

I. INTRODUCTION

1. At its meeting on October 31, 2013, the SREP Sub-Committee reached the following decision regarding the approaches and criteria for considering potential new pilot countries:

The Sub-Committee agrees in principle to open the SREP to new countries while recognizing that funds could also usefully be utilized to deepen programs in existing pilot countries or to expand the SREP set aside for enhancing engagement with the private sector.

The Sub-Committee also agrees that, in order to advance consideration of new countries:

- a) the CIF Administrative Unit should invite countries eligible for SREP funding to submit an expression of interest in participating in the SREP, based on a template to be prepared by the CIF Administrative Unit in collaboration with the MDBs;
- b) an expert group should be established as soon as possible thereafter to review the expressions of interest and recommend new countries, using the previously agreed selection criteria and process as a basis;
- c) the expert group is invited to identify up to 12 new countries that could benefit from the SREP program while contributing to the overall programmatic objectives of SREP;
- d) countries selected by the Sub-Committee would be provided with initial funding to prepare their full investment plans; and
- e) in selecting new countries, (i) focus should be given to energy access, noting the particularly low level of energy access in Africa, and (ii) allocation of indicative resources should be based on country characteristics.

The Sub-Committee further agrees that should funds be allocated to new countries, priority should be given to reserve countries, without necessarily prohibiting new countries from moving forward.

2. The current paper outlines the criteria and process for selecting potential new countries under the SREP using the previously agreed selection criteria and process as a basis.¹

II. PROPOSED CRITERIA

3. In selecting the initial SREP pilots in 2010, the Sub-Committee considered two perspectives: (i) a country's willingness to meet the criteria and to achieve the objectives of the SREP, and (ii) a country's potential and capacity to implement a SREP program. In addition, regional balance and natural conditions for developing renewable energy were included as part

¹ See *Criteria for Selecting Country and Regional Pilots under the Program for Scaling up Renewable Energy in Low Income Countries*, March 26, 2010.

of the criteria.

4. It is proposed that the previously agreed criteria be used as a basis for considering new SREP pilot countries, with some modifications reflected in the criteria below. Furthermore, it is proposed that information submitted by the eligible countries in their expressions of interest be taken into account in ranking the countries against the criteria and that weights be assigned to the proposed criteria to be applied by the expert group in its review and scoring of the expressions of interest.

5. Below are seven criteria (five qualitative and two quantitative) with weightings proposed for selecting new SREP pilot countries:

- a) the existence of, or a willingness to, adopt, within an appropriate timeframe, supportive regulatory structures and institutions to support renewable energy development (including agencies to promote/utilize renewable energy, if relevant) (weight: 15%). This could include policies and regulations promoting renewable energy, such as feed-in tariffs, tax incentives, subsidies, concessional financing or renewable portfolio standards.
- b) an enabling regulatory environment that promotes private sector investments in renewable energies (weight: 20%). This could include policies that support private sector participation and public-private partnerships. This could also include availability, or willingness to develop, local capacity along the renewable energy supply chain, including manufacturing, training, and operations and maintenance.
- c) sector-wide energy development strategies that are open to integrating renewable energy into energy access and supply enhancement programs or targets for large-scale renewable energy deployment (weight: 10%). Countries can be assessed on national and local strategies and targets for electrification, and current or projected share of renewables in the energy portfolio.
- d) good governance within the sector (weight: 10%). An assessment of sector governance might include commercial performance of relevant institutions, pricing and tariff practices, and competitive procurement of goods and services, the transparency and accountability of these practices and the degree to which they are subject to public oversight.
- e) potential capacity for implementation, including sufficient institutional and technical capacity (weight: 15%). This can include a track record of renewable energy projects completed or initiated with participation of private sector, previous experience implementing and using renewable energy technologies, capacity for operating and maintaining renewable energy systems. In specific cases, the existence of a track record may not be a strict criterion and a willingness to advance in the area of renewable energy could be sufficient. The government's ability to effectively absorb additional funds should also be

considered.

- f) energy access (weight: 20%). This will be measured in terms of percentage of total population with access with electricity. Data from public sources will be compiled.
- g) relative poverty (weight: 10%). This will be measured using gross national income (GNI) per capita. Data from public sources will be compiled.

6. Regarding regional balance for the selection of new SREP pilot countries, it is recognized that the emphasis is to be placed on the opportunities to increase energy access noting the particularly low level of energy access in Africa. It is further recognized that from the perspective of sharing knowledge and lessons SREP can benefit from including a diverse group of countries and regions. Taking this into account, it is proposed that two-thirds of the 12 identified countries should come from Africa (e.g., 8 out of 12) and that out of the remaining four countries to be identified, each of the three other regions (South and East Asia and Pacific, Europe and Central Asia, and Latin America and Caribbean) should be represented (see Annex 1 for a list of eligible countries by region).

III. PROPOSED PROCESS

7. The CIF Administrative Unit will invite eligible countries to submit an expression of interest in participating in the SREP. In accordance with the outline presented in Annex 2, the CIF Administrative Unit will invite the members of the expert group constituted in 2010 to reconvene to review the expressions of interest received and identify and score 12 new countries for consideration by the Sub-Committee.

8. In presenting its recommendations to the SREP Sub-Committee, the expert group is requested to elaborate how it has taken the above criteria and other considerations into account in preparing its list of potential new pilot countries. The expert group report should include, inter alia, information on:

- a) methodology (including a score card) and analysis leading to the group's list of proposed new pilot countries; and
- b) an assessment of key issues and challenges for the identified pilot countries.

9. The Sub-Committee will review the report of the expert group at its meeting in June 2014 and is expected to make a decision at this meeting. See Annex 3 for a proposed timeline for selecting new SREP pilot countries.

Annex 1: List of Eligible Countries

A country is eligible for participating in SREP programs if it is:

- a) An IDA-only country or a regional development bank (RDB)'s equivalent (see below);
- b) Engaged in an active MDB country program. For this purpose, an "active" program means where an MDB has lending program and/or ongoing policy dialogue with the country.

Below are definitions of eligibility for IDA (International Development Association – the World Bank fund for the poorest) and RDB's equivalent.

World Bank

Countries are eligible for IDA on the basis of (a) relative poverty and (b) lack of creditworthiness. The operational cutoff for IDA eligibility for FY14 is a 2012 GNI per capita of USD 1,205, using Atlas methodology. To receive IDA resources, countries must also meet tests of performance. An exception has been made for small island economies. In exceptional circumstances, IDA extends eligibility temporarily to countries that are above the operational cutoff and are undertaking major adjustment efforts but are not creditworthy for IBRD lending.

African Development Bank

Countries are eligible for ADF (African Development Fund) on the basis of (a) relative poverty and (b) lack of creditworthiness. The operational cutoff for ADF eligibility for FY14 is a 2012 GNI per capita of USD 1,205, using Atlas methodology.

Asia Development Bank

ADF (Asian Development Fund) countries are defined as countries that have access to the ADF. These countries have the greatest development challenges and are eligible to receive very low interest loans and grants. Borrowers' eligibility for ADF is based on two criteria: (1) per capita gross national income (GNI) and (2) creditworthiness for ordinary capital or market-based resources. ADB uses World Bank's per capita GNI estimates based on the Atlas method and IDA's operational cutoff for eligibility.

European Bank for Reconstruction and Development

In early 2004, EBRD launched a new initiative to increase its activities in the Early Transition Countries (ETCs). The initiative aims to stimulate economic activity in EBRD's countries which still face the most significant transition challenges: Armenia, Azerbaijan, Belarus, Georgia, Kyrgyz Republic, Moldova, Mongolia, Tajikistan, Turkmenistan and Uzbekistan. More than 50 per cent of the people in these countries live below the national poverty line.

The initiative aims to stimulate market activity in these countries by using a streamlined approach to financing more and smaller projects, mobilizing more investment, and encouraging

ongoing economic reform. The initiative builds on international efforts to address poverty in these members of the Commonwealth of Independent States (the former Soviet Union).

EBRD will accept higher risk in the projects it finances in the ETCs, while still respecting the principles of sound banking. To increase its investments in these countries, EBRD has allocated more staff to work on ETC projects and has created a new team dedicated to the initiative.

For the purpose of SREP eligibility, four ETC countries are not considered for reasons listed below: Uzbekistan (no energy lending program), Turkmenistan (no energy lending program), Belarus (private sector engagement only, therefore no possibility to affect renewables regulatory framework), and Azerbaijan (very weak enabling environment for renewables due to the structure of the power market).

Inter-American Development Bank

After the last debt relief by the IDB in 2007, the IDB Board of Governors approved the Debt Sustainability Framework and Enhanced Performance-Based Allocation (DSF/EPBA) to guide concessional lending. Under this framework, the total volume and the concessionality of IDB lending for each country are determined through blending highly concessional resources from the Fund for Special Operations (FSO) with Ordinary Capital (OC). Four countries (Bolivia, Guyana, Honduras, and Nicaragua) get FSO and OC resources blended in a pre-defined proportion and cannot have access to OC alone. A fifth country (Haiti), which traditionally also received concessional resources through the FSO, receives exclusively grant financing through the IDB grant facility since 2007. These five countries, called “D2 countries” by IDB, are considered IDB’s equivalents of IDA-only countries.

Below is a list of SREP eligible countries (IDA-only countries plus similar RDB’s equivalent) to be invited to express interest in participating in SREP (total = 55):²

Africa (33)

- Benin
- Burkina Faso
- Burundi
- Cameroon
- Central African Republic
- Chad
- Comoros
- Congo, Democratic Republic of
- Congo, Republic of
- Cote d'Ivoire
- Djibouti
- Eritrea

² The current SREP pilot countries are excluded from the list: Armenia, Ethiopia, Honduras, Kenya, Liberia, Maldives, Mali, Mongolia, Nepal, Solomon Islands, Tanzania, Yemen, and Vanuatu. Nigeria is also excluded from the list as it is already participating in the Clean Technology Fund.

- Gambia
- Ghana
- Guinea
- Guinea-Bissau
- Lesotho
- Madagascar
- Malawi
- Mauritania
- Mozambique
- Niger
- Rwanda
- Sao Tome and Principe
- Senegal
- Sierra Leone
- Somalia
- South Sudan
- Sudan
- Togo
- Uganda
- Zambia
- Zimbabwe (AfDB's equivalent)

South and East Asia and Pacific (13)

- Afghanistan
- Bangladesh
- Bhutan
- Cambodia
- Kiribati
- Lao People's Democratic Republic
- Marshall Islands
- Micronesia, Federated States
- Myanmar
- Nauru (ADB's equivalent)
- Samoa
- Tonga
- Tuvalu

Europe and Central Asia (5)

- Georgia (EBRD's equivalent)
- Kosovo
- Kyrgyz Republic
- Moldova (EBRD's equivalent)
- Tajikistan

Latin America and Caribbean (4)

- Bolivia (IDB's equivalent)
- Guyana
- Haiti
- Nicaragua

Annex 2: Outline of Expression of Interest (EOI) to Participate in SREP³

I. COUNTRY AND GOVERNMENT AGENCY SUBMITTING EOI

II. DESCRIPTION OF THE COUNTRY AND ENERGY SECTOR CONTEXT

Please provide a summary of the country and energy sector context, including resource potential for deploying renewable energy, status of energy access (population with access to electricity), renewable energy policies, targets, and implementation measures.

III. RATIONALE FOR SELECTED SECTORS FOR SREP FINANCING

Please identify barriers for the deployment of renewable energy, potential sector, sub-subsectors, and technologies for possible SREP financing as well as the rationale for prioritizing them for SREP interventions.

IV. ENABLING POLICY AND REGULATORY ENVIRONMENT

Please provide an overview of the existing policies, legal framework, market and regulatory structure for renewable energy development and the potential impacts of public and private sector interventions in addressing the barriers. Discuss the existing regulatory environment for attracting private investments in renewable energy technologies and governance within the energy sector, including commercial performance of relevant institutions, pricing and tariff practices, competitive procurement of goods and services, the transparency and accountability of these practices and the degree to which they are subject to public oversight.

V. INSTITUTIONAL AND TECHNICAL CAPACITY

Please provide an analysis of the institutional and technical capacity for implementation, including the government's ability to effectively absorb additional funds. Please also provide a preliminary assessment of potential implementation risks.

VI. PROGRAMS OF MDBS AND DEVELOPMENT PARTNERS

Please describe briefly the ongoing and planned programs of the relevant multilateral development banks (MDBs) and other development partners relevant to energy access and renewable energy and how the proposed interventions for SREP would link to and build upon these programs.

³ The expression of interest should not exceed 10 pages, including tables, charts, and annexes.

Annex 3: Provisional Timeline

End Jan 2014	CIF AU submits to the SREP Sub-Committee for approval by mail criteria for selecting new pilot countries, an outline to be followed in preparing an expression of interest, and a list of eligible SREP countries
Mid Feb 2014	CIF AU sends out letters soliciting EOI to eligible countries
Late March 2014	EOI from eligible countries received Virtual organizational meeting of the expert group
March 31-April 3 2014	Expert group meets in Washington, DC to carry out its work
April 25, 2014	Expert group submits its report to CIF AU
May 2, 2014	CIF AU circulates expert group report to the SREP Sub-Committee
June 2014	SREP Sub-Committee meets